

Selected case material

CASE 27.1

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FT

When Disney wishes upon a Pixar

FRANK PARTNOY

The Disney brand was built on fairy tales: princesses who suffer unimaginable hardships, princes who save them and cartoon characters who inhabit strange, wonderful worlds. When Walt Disney came to Hollywood in 1923, his pilot film was called *Alice's Wonderland*.

The Walt Disney Company's latest fantasy is the plan to reawaken its film business by paying \$7bn (£3.9bn) for Pixar, a 775-employee company that has made six computer-animated films since its founding 20 years ago. Robert Iger, Disney's new chief executive, says animation is the key to his company's future, and Pixar is the top digital animation studio: it has 18 Academy Awards and its films have grossed more than \$3bn.

Most reports have portrayed the Disney-Pixar negotiations as a personality play, between Mr Iger and Steven Jobs, Pixar's head. Both have much to gain from a deal. Mr Iger could secure top animation talent, something his predecessor, Michael Eisner, could not do; and Mr Jobs would be Disney's largest shareholder, at 7 per cent, with a platform for cross-selling products from Apple, the other company he leads.

But like a classic Disney feature, this deal, if it comes off, would be about much more than the main characters. It is an allegory of what is right and wrong with large companies, particularly in media and technology.

Disney has become a pathologically dysfunctional organisation. Like IBM of the 1970s or AT&T in the 1980s, Disney grew fat and bureaucratic in the 1990s, long after cementing its lucrative entertainment franchise.

Some of Disney's problems are endemic to large corporations. When a company has 133,000 employees, it cannot be governed by human beings. Instead, it must rely on a culture to preserve its earlier entrepreneurialism, while focusing workers on the continuing mission.

Unfortunately, Disney's culture, like that of IBM and AT&T, encouraged inefficiency and stifled creativity. Over the past five years, Disney's shares have lost a third of their value and the company has become a corporate governance pariah. Many thought the low point was the fiasco surrounding Michael Ovitz, who left Disney with \$140m after just 14 months. But more troubling was the release of the abysmal *Treasure Planet*, a film that cost about as much as Mr Ovitz and avoided universal ignominy only because so few people saw it.

To survive and prosper, large organisations must be divided into manageable pods, whose workers have independence and incentive. In contrast to Disney, Pixar was just such a free-standing, free-spirited group with a relaxed, open-plan office and no signs of managerial hierarchy. John Lasseter, Pixar's creative leader, wore Hawaiian shirts and rode a scooter inside. When Pixar won Oscars, employees displayed the statues proudly but dressed them in Barbie doll clothing. Whereas Disney executives micromanaged films, including those with Pixar, Mr Lasseter let his crew run free and encouraged ideas.

In many ways, Pixar was an old-fashioned, entrepreneurial company, built on the founda-

tional incentives that Frank Knight, the early 20th century economist, had described as the linchpin of successful corporate activity. Mr Knight argued that companies would be best managed when a single human being held a large stake. This view makes especially good sense for today's technology companies, where production is driven by small groups of entrepreneurs with the incentives and skills to innovate. Mr Jobs owns more than half of Pixar's shares and has been the driving force to maximise share value. He is a proven risk-taker, a quintessential Knightian entrepreneur. Unlike Disney's top executives, who were handsomely rewarded with salary, bonus and stock options, Mr Jobs has earned a total salary at Pixar over three years of just \$157, not even enough to buy a new iPod, and he did not receive stock options.

Even if the deal is concluded, no one, including Mr Jobs, will have a large enough stake in the game at Disney to play entrepreneur. Besides, Mr Jobs is more likely to focus on running Apple. In general, companies without an entrepreneur suffer when they grow. Examples abound today. Large techno-

logy groups do defensive patenting, building thickets of intellectual property, not because they have good ideas but because they want protection from smaller rivals who might. Big drug companies do not invent new drugs; they buy companies that do. And so on.

The key question for a possible Disney-Pixar deal is, which company's culture would survive: large or small? Would Pixar become 'Disneyfied'? Or would Disney apply Pixar's model and unshackle its other business units? In its formative years, Disney was a creative hotbed, led by a handful of brilliant minds. Over time, the leaders lost sight of their mission and product. Mr Iger's challenge is to remake Disney with a small-company culture that rewards experimentation and encourages innovation. As a Pixar employee noted: 'What you need to create is the most trusting environment possible where people can screw up.' And, one might add, live happily ever after.

Source: Frank Partnoy, 'When Disney wishes upon a Pixar', *Financial Times*, 25 January 2006, p. 21.
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CASE 27.2

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FT

The calm reinventor: man in the news A.G. Lafley

NEIL BUCKLEY

Two days after taking over as Procter & Gamble's (P&G) chief executive in 2000, A.G. Lafley walked unannounced into a Chicago dinner party of P&G's 'alumni' – former executives of the consumer goods giant. With his spiky, silver-grey hair and quiet charisma, Mr Lafley's arrival caused quite a stir.

There was good reason for those present to be surprised. P&G was famous for recruiting high-flyers from the top universities and promoting only from within. But it was equally well known for treating as outcasts any who chose to leave the Cincinnati-based company, despite a roll-call of alumni that included many stars of US business, including Jeffrey Immelt of General Electric, Jim McNerney of 3M, Meg Whitman of eBay and Steve Ballmer of Microsoft. Mr Lafley was the first P&G chief executive ever to embrace the alumni organisation and attend one of its meetings.

The gesture was symbolic of the changes he would bring to the company that this week's planned \$57bn (£30bn) purchase of Gillette will transform into the world's biggest household goods and personal care business by far.

Mr Lafley has not only pruned costs, rebuilt the corporate structure in a way that has become a model for many other consumer goods groups, and rekindled P&G's spirit of innovation. He has also reinvented the culture, turning a hidebound, introspective company, whose besuited executives were nicknamed 'Proctoids', into one that is open and outward-looking.

Yet Alan George Lafley, known universally as AG, took P&G's top job almost by accident – and found a company in crisis. Durk Jager,

his predecessor, had been ousted after barely 18 months in the job, having attempted to drive through a restructuring plan that had brought chaos to the company and resulted in three profit warnings in three months.

Mr Lafley, then a 23-year veteran of P&G who had headed both its Asian and North American operations, represented, above all, a change of style.

The aggressive Mr Jager tended to intimidate employees. His style was similar to that of Ed Artzt, his predecessor-but-one, nicknamed the 'Prince of Darkness' within P&G. Mr Lafley is, by contrast, affable and consensual in his approach. He speaks quietly, with a slightly nasal New England twang, and with a calm self-assurance.

The shake-up of P&G launched by Mr Jager in 1999 was the product of a 1997 'think-in' involving half a dozen senior executives, including Mr Lafley and John Pepper, the previous chief executive. It aimed to jolt P&G out of its torpor of the 1990s, when innovative products were thin on the ground and the company looked in danger of running out of steam.

National P&G fiefdoms were to be swept away by a 'matrix' of global business units managing product areas such as health and beauty, and fabric and homecare. These would work with a network of regional market development organisations charged with marketing and distribution at local level.

The structure would ultimately prove to be the right one, but Mr Jager attempted to introduce it too fast and set goals that were too demanding, causing dislocation and a loss of focus on its key products. Mr Lafley reduced

Mr Jager's over-ambitious targets of 7 to 9 per cent growth in annual sales to a more realistic 4 to 6 per cent, and its 13 to 15 per cent earnings per share growth target to 10 per cent.

Within two years, P&G was outperforming both its new targets and many of its competitors.

Yet perhaps more important than the structural revamp were the cultural changes Mr Lafley brought in. Out went suits in favour of the open-necked shirts that Mr Lafley usually sports. Out, too, went the 11th-floor, wood-panelled executive offices in the Cincinnati headquarters, replaced by open-plan meeting and training areas.

He restored the company's focus on responding to consumers' needs, rather than just coming up with ideas and trying to find ways to market them. 'The consumer is boss' is the mantra he repeats endlessly.

Most important, Mr Lafley insisted P&G should no longer refuse to look at ideas from outside but be prepared to buy in ideas and technology – as well as sell or license out technology it developed but could not use itself. It now has a unit devoted to doing those things and a team of scientists whose job is to scour the internet and scientific publications for breakthroughs P&G may be able to use. Nabil Sakkab, head of research and development at P&G's fabric and homecare division, says the company's attitude towards its intellectual

property has changed from 'the Kremlin to the Acropolis'.

The result has been a string of successful product introductions, such as the Crest Spinbrush, a battery-powered toothbrush brought to P&G by an entrepreneur, White-strips tooth-whitening strips, Swiffer electrostatic cleaning products and an extension of the Mr Clean household cleaning brand into a car-washing system, Mr Clean Autodry.

But Mr Lafley's understated style masks a keen strategic mind and ambition. He led P&G through what were, until this week, its two biggest acquisitions – of the Clairol and Wella hair care businesses. Those deals shifted the company's focus decisively towards higher-margin health and beauty businesses.

But the Gillette purchase dwarfs them, and will represent a far bigger integration challenge. Mr Lafley's quietly authoritative approach will be one key to making the takeover work. Another will be the successful application to the enlarged group of the consumer focus that he has restored to P&G. 'We want to be consumer-driven,' he says. 'We want to be market-driven. We don't want to be pushing something out of an ivory tower somewhere.'

Source: Neil Buckley, 'The calm reinventor: man in the news A.G. Lafley', *Financial Times*, 29 January 2005, p. 11. Copyright © 2005 The Financial Times Limited.



Discussion point

1. Discuss the challenges that arise in instilling an entrepreneurial culture and ethos in (a) Pixar and (b) Gillette.